

BULLETIN #2014-29

TO: Distribution **DATE:** September 30, 2014
RE: Ineligible Programs and Properties, VA IRRRL Enhancement **EFFECTIVE DATE:** As noted below
and 600-Series Updates

In response to a competitive marketplace and to support the growth of our Sellers, CMG Financial is pleased to announce the continued enhancement of our non-agency product suite. In addition, this Bulletin addresses four small changes to eligibility guidelines to various Agency and Government loan programs.

600-Series Program Updates

Clarification: This product line is "Prior Approval" only. Sellers do not have delegated underwriting authority. Please refer to [CMG's non-agency submission process](#) for complete procedures.

Format Change: On the effective date, the Guidelines will be reposted in a new format to make it easier to quickly locate the needed information.

Name Change: To better align this product line with its extensive offering, such as Non-Warrantable Condos with loan amounts down to \$100,000, the product line will be renamed from "Jumbo" to "Non-Agency" on the effective date. Product codes stay the same, but rate sheets, guidelines, and all marketing collateral will soon reflect the name change to "Non-Agency".

Underwriting Fee: \$495

Effective for lock dates on and after Tuesday, October 7, 2014:

Enhancements:

- **Acreage:** Now allowed - Properties with >10 and ≤ 20 acres now allowed subject to the following:
 - Must be typical for area as evidenced by recent comparables
 - Maximum 35% land value
 - No income producing attributes
- **Now eligible:** Loans secured by properties in Arkansas, Mississippi, and South Dakota
- **DTI: Increased** from 40% to 43% for all transactions
- **Declining Markets:** Removed the requirement for a 5% reduction to LTV/CLTV/HCLTV when the subject property is located in a declining market
- **Refinance transactions:**
 - Unless specifically stated in the guidelines, all refinance transactions must be Fannie Mae Continuity of Obligation requirements (clarification)
 - Rate/Term refinances: No longer restricted to 12 month seasoning for inherited properties
 - Cash Out Refinances: Reduced from 12 months to six months the waiting period for properties listed for sale
- **Minimum credit standards:** Borrowers who are contributing less than 25% of the qualifying income are not subject to the minimum credit standards.
- **Adverse Credit History:** Changed from not permitted to permitted in the past 24 months, guidelines regarding public records indicating
 - Public records of de minimis amounts, which occurred as isolated events, may be permitted. Documentation must be provided describing the cause of the event and the extenuating circumstances that illustrate the borrower's inability to resolve the problems. Patterns of continuous or repetitive derogatory events are not acceptable. All public records with outstanding debt obligations must be paid off prior to or at closing as noted below:
 - Open judgments, garnishments and all outstanding liens must be paid.
 - In general, outstanding collections and charge-offs must be paid off. Collections and charge-offs with minor outstanding balances may remain open.
- **Social Security Income:** Non-taxable social security income may be grossed up using the tax rate from the borrower's most recent tax returns. If the borrower is not required to file tax returns, the tax rate used is 25% (previously 15% for all situations).
- **Acceptable Assets:** Assets must be documented in accordance with Fannie Mae guidelines. Asset types not specifically mentioned in the guidelines are not permitted. The following asset types are now added:
 - Sale of Assets – 100% of the net proceeds from the sale of a residence or other personal assets.
 - Cash Value of Life Insurance – 100% of the cash value.
- **Gift Funds:**
 - Removed requirement to verify that sufficient funds to cover the gift were in the donor's account.
 - Fannie Mae eligible relatives now eligible as a donor (previously only permitted by an immediate family member or domestic partner)

Restrictions:

- **Minimum Credit Score:** Increased minimum from 700 to 720 for Primary (1-Unit) and Second Home Cash-Out Transactions with loan amounts from \$1,000,001 - \$1.5 Million
- **Age of Documents: Decreased** from 120 to 90 the maximum age of the following documents: Credit Report, Income, Assets, Title Commitment
- **Regional Restrictions:** Adding Massachusetts as an ineligible state. (Properties in New York and US Territories continue to be ineligible.)

- **Rental Housing Payment History:** Aligned rental payment history with mortgage payment history to require a full 24 months payment history. This history can be a combination of mortgage and rental history.
- **Rental Income Departure Residence:** An appraisal rather than an AVM or BPO to document the borrower's equity position is required. The appraisal must be at least an exterior appraisal and must have an effective date within six months of the closing date for the new primary residence.

FAQ: In response to frequently asked questions, the following represent clarifications to guidelines:

- **5/1 ARM Caps:** 2/2/5 - initial/subsequent/lifetime
- **Minimum credit standards:** Authorized user accounts and non-traditional credit are not considered acceptable trade lines.
- **Funds to close:**
 - A written VOD may only be used as supporting documentation and cannot be used in lieu of asset statements.
 - Business funds: CPA letter must be included in the file confirming that the withdrawal will not harm the financial strength of the business.
- **Ineligible Properties** include the following:
 - Properties with values significantly in excess of the predominant value of the subject's market area may be ineligible
 - Properties located in Hawaii Lava Zones 1 & 2
 - Land Trusts, including Illinois Land Trusts
- **Subordinate financing:** If the subordinate financing is a HELOC secured by the subject property, monthly payments equal to the greater of:
 - The minimum payment required under the HELOC terms considering all draws made on or before closing of the subject transaction;
 - or
 - 1% of the recorded total line amount regardless of whether the HELOC has a zero balance or a balance greater than zero.
- **Fraud Report:** An electronic fraud detection/QC report is required with every Purchase Package. CMG Financial will accept most standard electronic fraud detection reports, including InterThinX Fraud Guard, DataVerify, Lexis Nexis, and Corelogic LoanSafe. Report findings must cover standard areas of quality control including borrower validation, Social Security verification, property information, and MERS.
- **Escrow Waiver:** Both taxes and hazard insurance must be escrowed in order to avoid the loan-level price adjustment
- **Bonus, Overtime or Commission Income:** In addition to items required for salaried borrowers, the following additional documentation must be provided to further support the calculation of income:
 - A written VOE which clearly reflects the amount of bonus, overtime and/or commission earned.
 - The two most recent years' personal income tax returns are required for commission income
- **Self-Employed Income:** A balance sheet **is required** in addition to a year-to-date P&L
- **Rental Income:** In accordance with QM requirements, a copy of the lease is required in all instances
- **Reserves:**
 - For borrowers aged $\geq 59 \frac{1}{2}$, 100% of the reserve requirement may come from retirement accounts. In order to be considered effective reserves, the account must be vested and allow withdrawals by the borrower without restrictions other than early withdrawal penalties and applicable taxes. Funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death **cannot be counted/considered** as reserves.
 - Clarified all reserves are calculated on the qualifying rate as it relates to calculating full PITIA payment.

In addition to the above 600-series updates, please note the following enhancements and changes:

VA IRRRL Enhancement

Effective Immediately:

CMG is expanding the recent enhancement for VA IRRRLs to not require an AVM and not restrict LTV with a borrower minimum credit score of 640 to Non Owner Occupied IRRRLs. The minimum credit score for non-owner occupied IRRRLs continues to be 620.

The [Overlay Matrix](#) has been updated:

- Non Owner Occupied:
 - 620 minimum credit score, AVM required, max LTV 150% (no change)
 - 640+ credit score, AVM not required, unlimited LTV (**new**)

Ineligible Programs and Properties

Effective for loans locked on and after Tuesday, October 7, 2014.

- FHA Back to Work Program is ineligible
- FHA High Balance and VA loan amounts > \$417,000 require a minimum credit score of 640 (increased from 620).
- 2-4 unit properties in NJ are no longer permitted for all financing types.

**Please contact your Correspondent Regional Manager or
your Correspondent Liaison with any questions.**